Budget 2016

JOBS & GROWTH

Superannuation Reform:

More flexibility and choice for older Australians

The Government will improve the flexibility of the superannuation system by making it easier for people aged 65 to 74 to contribute to their superannuation savings by removing the aged based contribution rules.

The issue

Currently, people who are aged 65 to 74 are only able to make voluntary or non-concessional superannuation contributions if they meet a work test.

Additionally, people are only permitted to make contributions for a spouse aged 65 to 69 if that spouse meets a work test. If their spouse is aged 70 or over no spouse contributions can be made.

These rules limit the ability of older Australians to save for their retirement and create unnecessary complexity.

The details

From 1 July 2017, the rules that limit the ability of working Australians aged under 75 to make contributions to their own or their spouse's superannuation will change. Specifically, the Government will:

- remove the requirement that an individual aged 65 to 74 must meet a work test before making voluntary or non-concessional contributions to superannuation; and
- allow individuals to make contributions to a spouse aged under 75 without the need for the spouse to meet a work test.

In addition, individuals aged 65 to 74 will benefit from other changes that improve the flexibility of the superannuation system. This includes:

- the carry forward of any unused concessional contributions cap, on a rolling basis for up to five years, where their superannuation balance is less than $500,000;
- allowing non-concessional contributions, subject to a $500,000 lifetime cap; and
- expanding the eligibility for the 18 per cent spouse tax offset up to $540 that an individual can claim if they make a superannuation contribution for a spouse who earns less than $37,000 per annum.

To ensure that superannuation is not used for tax minimisation or estate planning, older Australians will still be subject to other integrity measures such as the $1.6 million transfer balance cap and the lowered concessional contributions cap.

Budget impact

This measure is estimated to have a fiscal cost of $130 million over the forward estimates.

Cameo — Bronte

Bronte is 71 and retired two years ago. She has $200,000 in her superannuation account including $80,000 in non-concessional contributions that she contributed after receiving an inheritance in 2008.

As part of her retirement plan she sells her home and purchases a small townhouse, and now has $200,000 to invest. Bronte would like to use this to top up her superannuation.

Under the current rules as Bronte does not meet the work test, she is prevented from using the $200,000 to top up her superannuation savings.

After 1 July 2017, since Bronte has not exceeded the new $500,000 lifetime non-concessional cap, she will be able to top up her superannuation with the $200,000 she has from downsizing her home.

Cameo — Julia and Sam

Julia is 65 and has left work to care for her father. Julia and her partner Sam decide Sam will make spouse contributions to Julia's superannuation.

As there is no work restriction, Sam can make spouse contributions. If Julia's income is less than $37,000, Sam can claim an 18 per cent tax offset (up to $540 per year) on the contribution.